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Trade, Trade and Strategic
Trade

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Trade, Trade and Strategic Trade

Introduction:

My paper "Some International Elements of Perestroika and U.S. National Security" addressed only two of Gorbachev's goals for entering the international economy: securing increased investment from the West and obtaining membership in the international financial institutions (IFIs). Gorbachev is counting on the third element -- increased trade -- as another way to ease the internal pressures in restructuring the Soviet economy.

Trade can be commercial trade; it can include dual use items which have both commercial and strategic uses, or trade can be for strictly strategic items. Changes in any one of these three affect U.S. national security. Strategic trade clearly affects U.S. national security. Determining what constitutes strategic trade can be difficult, however, since many products have dual uses. Because the impact of commercial trade and dual use trade on U.S. security is less evident than that of strategic trade, an examination of these two is necessary to complete my analysis of the international economic aspects of perestroika and U.S. national security.

Historically, and with few departures from that practice, the U.S. has sought to isolate the Eastern bloc. Barriers

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to trade for the West have been political, while barriers for the East have been both political and economic. Now that the Soviet Union is lowering the political barriers, the U.S. must ask itself what U.S. goals are and how to attain them while (1) ensuring that U.S. manufacturers can effectively compete in international markets and (2) maintaining U.S. economic superiority.

*is this
another way
of saying
protect U.S.
national security?*

This paper will support the principal conclusions of the companion paper: that perestroika, and evidence of its true nature, will take time to discover; that one of the threats of perestroika is the possibility of accentuating the split in the Western alliance; that the long-term goal of the U.S. should be to integrate the Soviet Union into international society; and that the U.S. can use the time provided by the process of perestroika to evaluate the nature of Soviet change and proceed in a step-wise fashion. Also included are a few specific suggestions on what the U.S. can do to implement a step-by-step strategy.

Current Situation: Although the Soviet Union deliberately created a separate economic system to dominate Eastern Europe, to advance world revolution and spread communism, to deepen the crisis of world capitalism and speed its demise, to insulate the USSR from that crash, to have oligopic control of Eastern Europe's resources, economic warfare was part of the West's Cold War policy. The success of the

West in its economic warfare only increased the East's predetermined isolation.

Despite several economic reforms by the Soviet Union in the 1960s and early 1970s to reform trade within the Soviet bloc:

"the results were unsatisfactory. Despite all efforts, Comecon trade remained hampered by internal biases against trade, the Eastern economies' lack of complementarity, the poor quality of goods produced in the individual states, and political unwillingness to delegate power to a supranational body -- especially one in which the Soviet Union had a powerful voice. Moreover, intrabloc technological cooperation was not up to the task of overcoming systemic biases against technological innovation" (Spero 354).

Nevertheless, there is considerable debate over the efficacy of economic warfare. Some analysts argue that the West's economic warfare retarded Soviet growth in the long run and contributed to containment. Trade, they contend, might have been small, but it would have played an important role in the Eastern economies by helping them overcome technological limits. Denial of sources of Western technology thus hindered their growth. The counterargument is that the impact was not significant where it mattered because economic warfare seems to have had little effect on the source of the Soviet's superpower status: their military capability.

Commercial Trade:

Volume: Commercial trade flows in both directions, although the U.S. tends to think only of Western exports flowing

East. Certainly the West to East trend predominates. Between the period 1980-86 the USSR turned a \$26.7 billion trade surplus into a \$2.6 billion deficit. In 1986 the USSR imported \$17.7 billion from Europe, \$4.5 billion from other Western industrial countries and \$1.2 from the U.S. During the same year it exported \$0.6 billion to the U.S., \$20.2 billion to Europe and \$1.5 billion to other Western industrial countries producing a trade deficit. Soviet-U.S. bilateral trade flows were about \$1.95 billion in 1987; \$2.5 billion in 1988. The U.S. runs a trade surplus with the Soviet Union of around \$1 billion a year. This is only a small percent of the Soviet GNP of about \$2.3 trillion (CQ 75-77).

Composition: (The pattern) of Soviet foreign trade in the 1980s remains the same as it did a decade ago. (The pattern) is atypical for an industrialized country such as the USSR, but is characteristic for a developing country, particularly in relation to its trade with the developed world. Soviet imports from (OECD) countries are dominated by manufactured products, especially technology-intensive goods, although imports of food products are increasing. Soviet exports consist mainly of primary products with fuel alone constituting more than 3/4s of total exports. Technology intensive goods represent only 9% of total Soviet exports to OECD countries. The main factor, however, resulting in a

*Should see
full name
last time
economy
appears*

positive trade balance of the USSR with the developing nations, like India, Syria, Iraq and Libya, is the export of arms. Arms constitute 46% of the total Soviet exports to these countries (1982 data).

Although the level of East to West trade is low, there is technology that the West would like to have. The Soviets are very proficient in certain areas and the West could be more aggressive in obtaining non-strategic Soviet

technologies. In his article in the Washington Post, March 12, 1989, John Kiser cites single-cell protein research, electronic materials, medical ultrasound, lasers, pulsed power, iron and steel process technologies, space,

fine-grained solids, composite materials, and rare earth technologies as examples of technologies the U.S. should

(attempt to get from USSR pursue.) Gordon and Stanley mention nuclear fusion and biogenetics as other significant inventions, patented in the USSR, which should command U.S. interest. The problem that the Soviets have is translating research into consumer goods and services, an American strength. Kiser notes that

"although the Soviet Union is a system with well-developed brain power and excellent scientific education it has a poor system of incentives for utilizing the output of its technical establishment, at least in the civil economy..." (Kiser)

The Consumer Society: Normal commercial trade will improve the life of the average Soviet citizen. There are two overwhelming reasons for the government to seek to do this.

The first directly concerns the consumer: more goods are an incentive to work; more goods reduce the time cost to the consumer; more goods of higher quality sustain the status of the citizen world-wide and reflects positively on the Soviet ideology. Incentives for increased productivity, ~~and increased productivity of quality goods~~ ^{Particularly of} will not work if there are no goods already available to buy.

The second reason concerns the society in general and the military in particular and it spins off of the need for incentives to induce the populace to produce quality goods. That production of quality products by the civilian economy is needed to provide some degree of confidence in the military that the civilian economy can meet military needs. Moreover, civilian production of civilian goods would relieve the military industries of that requirement. As it stands now, according to Hewett, each ministry and each enterprise receives a production target for consumer goods. He specifically notes, among other examples, that in 1980 the Ministry of Aviation (Minaviaprom) produced about one-third of all vacuum cleaners. The Soviet economy produces many goods of decent, if not high, quality. Compared to several decades ago, the quality of life has improved visibly but appears now to have peaked.

The one thing Soviets want is improved quantity and quality of food. This accounts for the efforts (and disappoint-

ments) in the agricultural sector. Unfortunately for the reform program farmers worldwide are one of the most conservative economic groups. One interviewer (said) Soviets lose 20-30% of their grain crop, 60% of their vegetables, and 25% of their meat through waste, fraud and mismanagement. Part of the problem is infrastructure: roads, refrigerators, equipment, etc. Improving this infrastructure takes resources, and, in the Soviet Union, it takes resources from the government. But part of the problem is the lack of a middleman whose function it is to provide the intermediation service and make the economy function efficiently. Ideologically the middleman is a pure capitalist, one who produces nothing yet lives off the effort of others. Economically, in capitalist terms, the middleman provides a service. In socialist terms, the middleman is regarded as a leech. In the USSR many services are not valued ideologically or in the GDP. One example cited in Hewett's book was a train: if the train delivers goods, it is part of the GNP, but if it is carrying people, then it is not. Consequently, there is no one in the official economy who has an incentive to provide efficient, economical delivery of goods. Middlemen do not 'cost' the government anything, but their creation inserts an element of capitalism into the communist model. Nevertheless if ^a Gorbachev could show improvements within the agriculture sector, specifically on the delivery of decent, affordable food to market, within the next two years, he

Significance?

#

Is this an insurmountable problem based on some of Gorbachev's other reforms which threaten at least some market reforms?

will have delivered 'reform' for the population and bought himself a decade within which to pursue deeper structural problems.

The conclusion of the Congressional Research Service report is that

"While attainment of world levels of efficiency and quality may be beyond the USSR's early grasp, positive and significant change over time seems likely."
(CRS-13)

The impact for U.S. security should be positive. While an improved ability of the USSR to transform a highly productive, competitive civilian labor force into a war machine is a latent consequence of reform, the integration of the Soviet citizen into the world economy, as a producer of goods, and as a market for Western products, is a more probable scenario.

There also is the argument that increased economic involvement with the international economy will serve to moderate Soviet behavior.

Mechanism: Gorbachev has given increased trade such a priority that oversight of foreign trade organizations, which used to be almost exclusively under the supervision of the Ministry of Foreign Trade, has now been decentralized and shifted to 20 domestic ministries. Seventy enterprises have been given the right to unsupervised export and import activities and the way is open for additional enterprises. These groups are to be self-financing so there should be an incentive to be profitable and efficient.

*Smith's mind
has* (So far, U.S. companies ^{have?} responded to Gorbachev's initiative on increased trade.) Some of these firms deal with dual use technologies like chemical and petro-chemical equipment, computers, information and software. The volume of business generated from these U.S. ventures remains to be seen. During Gorbachev's visit to New York and the U.N. in December 1988, the Soviets had a trade fair in New York, with 50 Soviet trade associations, industrial enterprises and cooperatives exhibiting 4,500 Soviet export commodities.

*better quality
or cheaper?* The countries of the European Economic Community ^(EC) stand to benefit greatly from wider commercial contacts with the Eastern bloc if perestroika succeeds -- both in receiving (better quality exports) that are attractive to European consumers and in opening up the Soviet market to EEC exports. On June 25, 1988, the EC and the Council for Mutual Economic Assistance (CMEA or Comecom) established diplomatic relations, opening the way for bilateral trade agreements between the EC and CMEA members. Since then, the EC has signed trade pacts with Hungary and Czechoslovakia to remove restrictive quotas against their exports.

Benefits and Problems for the USSR: East-West trade expansion might assist Soviet economic modernization in five ways,

"by: (1) providing continuous exposure to the West's superior innovative dynamism; (2) serving as a means to acquire high technologies; (3) setting standards for

quality and pricing within the domestic economy; (4) acting as a competitive spur to improved economic performance; and (5) ...making available more foreign goods as incentives to productivity for enterprise managers and workers. (G&S:25)

Free trade increases the need for currency convertibility, however, and any great increase in free trade, even if only semi-free, creates balance of trade problems. A consequence for some, such as China, has been a rising import bill, trade imbalance and duplicated technologies. Freer trade can play havoc with centrally planned production decisions, disturb factor inputs by causing unemployment or sectoral manpower shortages. Although foreign goods will most likely not be allowed to compete with domestic products, a higher quality foreign product with only a marginally higher price will compete favorably with poorer quality, lower-cost goods and reduce the demand for the locally produced item.

*What about
unemployment
resistance
a command
economy?*

A unique problem for closed societies is the question of computers. This has to be an element of concern for the USSR.

"The climate needed for scientific inquiry, communication, and rapid technological progress is antithetical to one in which the closed, controlled state influences key sector developments.... The unleashing of Soviet scientific capability, the full utilization of its technical talents, requires a more open, equitable system" (CRS, 14).

For example, The Smithsonian Magazine notes that scientists in the U.S. and the USSR have set up a bulletin board network to compare notes on global warming trends. This

*What
issue?*

streamlined technology makes it possible for American scientists to communicate with their Soviet colleagues without the expense or protocol problems of face-to-face meetings. As this type of openness spreads across Soviet society it will force change in uncontrolled and possibly threatening ways.

Benefits and Problems for the West: On the Western side the benefit of trade is the possibility of vast new markets in the East. The hope of opening up this new trade builds on the knowledge that the Soviet economy has until recently been the world's second largest, and even today is close to the scale of Japan's. Plus the Soviet consumer has not had access to plentiful, quality consumer goods. The potential is definitely there: the Soviet trade coefficient (the ratio of the average of exports and imports to GNP) was under one percent compared to eight percent for the U.S. or 12 percent for Japan, and 30-70 percent for the Western European countries. Moreover, except for Finland, India and Syria, cases where special political relationships exist, Soviet trade does not exceed four percent of the total trade of its partners.

Not only is the market there, but the interest and willingness to trade are growing. The Economist of October 15, 1988 reports that Gorbachev said in Vladivostok that the USSR wants to increase trade with the Pacific Basin

countries three-fold in the next 12 years. Although Gorbachev did not specify, he most likely was referring to two-way trade increases, and not just to an increase in Soviet exports or in Pacific Basin imports. U.S. trade across the Pacific is now greater than U.S. trade across the Atlantic, so the U.S. should be concerned about who is in the market. Trade, fortunately, is one of those areas that need not be a zero sum game; more players can be better. But the U.S. should not wait until the Soviet Bear is in the Pacific china shop, looking at the Spode, to rationalize its trade policies with its allies in the Pacific Basin.

There are, admittedly, many obstacles, inherent in the Soviet economic system, to conducting profitable business in the USSR. These obstacles are sufficient that the growth of trade will be slower than the Soviets would like. The relative lack of economically attractive Soviet exports, and the inconvertibility of the ruble are just two such problems. Another is the Soviet requirement that joint ventures, and other investments, be primarily responsible for generating enough hard currency to carry the partnership, including sufficient funds for the repatriation of the profits of the Western partner.

One trade issue that might raise moral-ethical questions for the U.S. is computer technology transfer, mentioned earlier. Aside from the potential for military applications, and the

concern about a general upgrade of skills of every Soviet kid with access to his own Apple, some worry that the neo-conservatives within the Soviet Union would use increased computer capability

"to enhance the quality of information and planning decisions handled by the center. With this system, central planners will be able to keep tabs on each enterprise, each association, each ministry.... For the neo-conservatives the computer is the vehicle through which the Soviet Union can recreate the efficiently run, centralized system of the 1940s." (Hewett 382).

And this is just central planning of the economy; it says nothing about restricting the freedoms of the individual. The optimists believe, however, that in unleashing the personal home or office computer the USSR would be ringing its death knell. One computer philosopher said, in talking about attending a seminar on-line, "Electronically, I was there. This was a nowhere place and ... I could be anywhere" (Allen 93). This freedom is appealing but it does not allow for vast Soviet computer data banks focused on controlling the individual, intrusive hacking by the government, or on-line modem monitoring, i.e., all computers go through telephone lines. Perhaps high tech trade will create a moral dilemma for the U.S. by reducing those very freedoms the U.S. seeks to strengthen.

Soviet economic modernization contains some threats to Western security if it results in a more efficient, better equipped military, and/or if it produces a new competitor

for Western markets without a corresponding opening of Soviet markets. It is possible that the West or elements of it could become dependent on Soviet resources or goods; the French dependence on natural gas from the Soviet Union is one case in point. In addition, the West subsidizes new technology which is sold to the East, especially if the government supported the initial research, because the market price does not begin to approximate the real costs that the Soviet Union would have had to spend to create the same technology on its own. Western security analysts also fear that new technologies may allow the Soviets to short-circuit the development process and improve commercial technologies for military purposes. Another threat for a representative government, such as the U.S., which has a large open economy, which hosts thousands of multinational corporations, is that those multinationals in pursuing their own corporate interests sometimes undercut those of the U.S. But perhaps the most threatening to Western security is the ability of trade issues to accentuate the natural economic competitiveness of the U.S. and Europe, and to sunder the NATO alliance nations strategically by dividing them economically, particularly over the definition of strategic and dual use trade.

For example, the Germans have agreed to sell the Soviets a nuclear reactor. The reactor, to begin operation in 1996 at

The question is
how much control
can U.S. exert
over this process
regardless of
concerns?

Dimitrovgrad on the Volga, will generate 200 megawatts of thermal power through a high temperature process, a process the Soviets have been working for several years. The deal is expected to have a value of more than one billion marks (\$555.3 million). The reactor sale has not yet been approved by COCOM, and it is not known yet if the U.S. will concur with the sale, but we can anticipate that U.S. opposition would cost German good will.

Dual Use Trade:

Definitions: Dual use items have both civilian and military applications. Much of the discussion above applies to dual use trade, given the civilian commercial applications of such trade, but will not be repeated here. Export controls try to limit the Soviet acquisition of advanced military hardware and high tech methodologies with military application, and items in the dual use category which still have sensitive technologies. The West uses the mechanism of the Coordinating Committee for Multilateral Export Controls (COCOM) to establish those controls. COCOM was founded in 1949 and now has 16 members, including Greece, and Spain. It has no formal relationship with NATO, but was initially based around the NATO alliance countries. COCOM operates on informal agreements and according to rules of unanimity.

Conflicting Views: Establishing the U.S. position within COCOM is difficult. Conflicting but legitimate views within

*So the distinction
aren't this clear
FSX is a separate
policy. Comm
more concerned
with security
DOD*

the U.S. bureaucracy, e.g., free trade advocates at the Department of Commerce or protectors of U.S. national security at the Department of Defense, complicate policy formulation and implementation. Domestic policy problems include establishing a practical line of demarcation on strategic information, the formation of a reasonable list of restricted export items and technologies, a responsible bureaucratic center, coordinated protection of related military information, and the division of power and resources within the government.

With the Soviet invasion of Afghanistan and Soviet actions in Poland, the U.S. started in 1981 to strengthen the COCOM: agreements were updated; the list of controlled products was reinforced; trade with China expanded; COCOM secretariat was renovated; enforcement procedures were harmonized; and the cooperation of developing countries was sought.

U.S. views vary considerably from those of the Europeans. The European nations have a long, strong tradition of governmental non-interference in trade issues. The Congressional Research Service report to the Congress on U.S.-Soviet relations points out that many allied governments oppose the use of export controls for foreign policy purposes. The Europeans are not only willing to increase trade with the Soviet Union, but they are also willing to extend trade financing. While former National

Security Council (^{Adviser} Chief of Staff) General Colin Powell believes that the \$5-6 billion in trade credits is not going to hurt the West or help the East significantly, Senator Bill Bradley (D-N.J.) does not agree. He believes that:

"Cheap credits play into the hands of perestroika's opponents by deferring the day of reckoning.... The developing world and the Soviet Union are in competition for a limited pool of worldwide capital. If the West can afford subsidies, then let's reserve them for the truly needy." (CQ-79)

There are several problems under consideration in COCOM now. One is the 'no exceptions' regulation under which COCOM does not allow any exceptions to its regulations for the Soviet Union. This policy was begun when the USSR invaded Afghanistan. The Department of Defense would now like COCOM to extend this policy saying that it makes sound national security sense. The State Department position is that the U.S. imposed the regulation in response to a Soviet action, (And, therefore, when those conditions no longer apply, the U.S. should remove the restriction. Beyond providing an incentive for the Soviets to change their behavior, and to trust ^{the} U.S., removing the restriction may be in the national interest of the U.S. (The) national interest is defined here as the maintenance of the Western alliance. Failure to lift the 'no-restriction' clause may weaken NATO as it erodes the consensus underpinning the alliance. Reinstating the 'no-exception' clause does not raise the threat to U.S. security appreciably because the U.S. can evaluate any

exception requests on a case by case basis. The scenario for weakening NATO goes: ^{as follows:} in the face of an intractable U.S. position, various NATO countries begin to use the 'national discretion' clause of COCOM and not bring items to COCOM for review. The U.S. would then find it difficult to take measures against a NATO member which do not weaken the alliance. A similar situation could evolve if the U.S. fails to shorten the COCOM list further and to tighten compliance procedures. The Bush Administration has not yet made any decisions on these two questions. As long as it does not, the U.S. government cannot speak with one voice, and cannot lead COCOM.

The problem with restricted trade is that where the restrictions have not been clearly negotiated, either internally within the U.S. government or within COCOM, another nation may sell the item or sell it first. Since the U.S. uses more restrictive unilateral restraints on U.S. components and technology than other COCOM members do on theirs, many producers avoid U.S. sourced components in their design, not just for products for sale to the Bloc but also to Western markets. Howard Lewis, vice-president for export financing at the National Association of Manufacturers, said that without

"an agreed-upon multilateral approach with our allies...the U.S. is pretty much condemned to shoot itself in the foot." (CQ 79)

Although other COCOM nations promise to deal only with the Eastern bloc on deals that are unsubsidized, Western Europeans concluded trade agreements with the USSR in 1988 worth \$5 billion for industrial development, including machinery to produce consumer goods, flexible production systems using robots and laser technology, and the nuclear power plant, noted above. The West Germans sometimes provide government guarantees. Without coherent international policy, the U.S. forfeits the leadership role in East-West trade, and, if Senator Bradley is right, in other areas as well. Without coherent domestic policy, review takes time, loses sales and market share for U.S. companies.

U.S. Policy: While the Soviet Union complains about COCOM restrictions in the light of perestroika, it is too soon to tell whether perestroika is taking effect. At best the economic aspects of perestroika will take years to install. Just as important as waiting to see if perestroika^u taking effect is verifying if perestroika is benign to Western security. Allen Wendt, Deputy Assistant Secretary of State for East-West Trade, notes that:

"the relationship between the U.S. and the USSR remains competitive and adversarial.... So long as the adversarial dimension remains...restrictions on strategic trade will remain in force..." (Wendt 21).

The U.S. sees that improvements in Soviet weaponry are both real and substantial. Moreover, the U.S. believes that

Gorbachev and the leaders of the USSR may be gearing up to meet the technical challenge of the 1990s when a new generation of weapons must be developed and produced. An indirect indicator of the Soviet's priority on technology has been that a greater number of spy cases uncovered in the West have focused on the transfer of technologies rather than on other missions. Consequently the U.S. feels no compunction to rush into unilateral acts like reducing the dual use/strategic trade restrictions.

Nevertheless, General Powell, in his address before the New York Stock Exchange, agreed that the export control lists had grown tremendously, and he attributed the growth to rapidly expanding technology and the bureaucratic effort necessary to (delist) items. U.S. concurrence in delisting is slow even when the technology is old and readily available elsewhere. In an era of increasing East-West commercial ties, any controls, particularly generic, broad-spectrum controls over what the Europeans see as dated technology, strain the West-West relationship. The U.S. has already agreed in principle at the Jan 1988 COCOM meeting to shorten the lists in exchange for better enforcement. The problem appears to be the delisting process itself and not just the debate over specific items.

Also "it is not (the stated U.S.) policy to wage economic warfare against the USSR and its allies." (Wendt, p. 20)

U.S. officials have further stated that the U.S. can cooperate with minimum strategic technology problems in medical areas, consumer products and the food sector. In fact the U.S. has relaxed controls on some dual use equipment and technology, e.g., that utilized for seismic exploration for oil and gas, which can be used in antisubmarine warfare, nuclear research, and weapons development and design.

Conclusions

As with all the changes generated by perestroika, increasing trade, even only commercial trade, has inherent dangers for the West. One of the leading dangers is the risk of splitting of the U.S. and the nations of Europe. However,

'the economic problems of the Soviet Union are only part of a much wider and more fundamental crisis of the Soviet system.... Western security requires a well-calibrated approach to economic contacts with the Soviet Union, favoring a gradual solution of the complex of problems which the USSR is facing. Finding this solution is something which depends overwhelmingly on Soviet efforts. The West's main contribution will be cooperation -- and normal commercial exchanges may be an important element here -- in bringing about a less stressful international climate" (Feldbrugge, p. 21).

Quite apart from [the] any benefits that may accompany expanded trade with the USSR, the Europeans, whether consciously or not, see such trade as a psychological reassurance against the possibility of Soviet aggression. Furthermore, by being helpful to the Soviet Union in general

and by assisting its faltering economy with technology transfers and credits at the going rate of interest, many Europeans feel that they are, so to speak, domesticating the Soviets.

As early as 1966 Secretary of State Dean Rusk said

"A healthy growth of trade will help to reduce the present dependence of these Eastern European countries on each other and the Soviet Union." (Spero 358).

Thus freer trade may have the side effect of dividing the Warsaw Pact countries without the attendant risks of direct political action by the West.

Detente II needs to be based on the understanding that even though the two superpowers continue in an adversarial relationship, they are moving to establish an environment in which they can regulate and restrain their differences.

Secretary of State Baker said in the Washington Post Feb. 22, 1989, that

"the status of...legislative restrictions on Soviet trade is among the issues to be studied in the administration's review of East-West policies (which) ...will take about two months" (p.A20).

Moreover in an increasingly multipolar world where our interests and those of the countries of the EEC (or NATO) are beginning to diverge, the U.S. needs to establish its policies and then move out to persuade its allies that it is in our mutual interest to

- (1) Be aggressive in trade arrangements and seek technologies new to the West;
- (2) Forego government guarantees or any hidden subsidization of trade credits;
- (3) Streamline COCOM procedures to keep an export control list which has fewer items with stronger enforcement.
- (4) Consider the political consequences of their economic actions, and, evaluate whether there is some political-economic linkage which we can jointly follow. For example, West Germany might contemplate the consequences of its policy of closer alliance with East Germany as it considers whether its assistance to East Germany allows that country to be one of the most extreme regimes in the Soviet bloc.

As mentioned in the companion piece, the European nations have a different point of view on the separation of trade and politics which in the U.S. most closely parallels the separation of church and state. The EEC and the Soviet bloc may create a trading group that the U.S. finds hard to penetrate. Political interests follow economic interests and the Soviet Union is providing a challenge to the status quo which the U.S. cannot afford to let go unanswered.

The U.S. should not neglect close coordination with the Pacific Basin countries. A failure to revise methods of economic cooperation affects Western security strategies, i.e. nuclear non-proliferation, international agriculture

and high technology. If the situation degenerates into retaliatory trade warfare or unrestrained competitive currency devaluations, strategic cooperation will be damaged and it will be difficult to follow an active but cautious testing of the new East-West relationship.

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